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TAGS: [ETTC](#) [EINV](#) [EPET](#) [FR](#) [IR](#)

SUBJECT: TOTAL DISCUSSES PROSPECTIVE IRANIAN INVESTMENTS

Classified by Economic Counselor Stuart Dwyer for Reasons 1.5 (d) and (e).

¶1. (C) On March 8, Deputy Assistant Secretary for Energy, Sanctions, and Commodities Paul Simons met with Total Exploration and Production President Yves-Louis Darricarrere to discourage Total's prospective energy sector investments in Iran. Darricarrere said that Total would not make a final investment decision on whether to participate in a liquefied natural gas (LNG) project in Iran's South Pars field in the next few weeks, and would consider all political and economic factors before doing so. Certain elements of the project were not progressing quickly, and the GOI, somewhat surprisingly, was not pressuring Total to decide soon. End summary.

¶2. (U) On March 8, Deputy Assistant Secretary for Energy, Sanctions, and Commodities Paul Simons met with Total Exploration and Production President Yves-Louis Darricarrere to discuss Total's prospective investments in Iran and other issues. Total International Relations Vice President Romaric Roignan, State Energy and Natural Resources Division Chief Peter Haymond, and Econoff accompanied.

¶3. (SBU) Darricarrere began by noting that Total pays great attention to U.S. policy when making investment decisions. Total was one of the earliest major international oil companies to recognize that the energy industry would have to adjust to an approaching peak in oil production. The energy industry would not be able to deliver much more than 100 million barrels of oil a day, and the industry must be prepared for declining production. Total views the universe of countries open to international oil company involvement as limited and declining in view of growing resource nationalism. Total also takes the climate change issue very seriously, he added. Total is focused on growth, but the twin challenges of controlling carbon emissions and finding new conventional oil reserves are significant.

¶4. (C) Simons stressed continuing U.S. concerns over Iran's political behavior and the negative consequences of major new foreign investments in Iran's energy sector. There have been few new deals signed with Iran in the past few years, he said, due to widespread objections to Iran's nuclear program and Iran's own reputation as a difficult and unreliable partner.

More recently, however, Iran has been more aggressively seeking new energy investment deals, and making public announcements of progress in negotiations in an effort to demonstrate a "business as usual" environment. If such deals actually go forward, they would have an extremely negative impact on U.S. foreign policy objectives and on the reputations of the foreign firms involved in the United States. Simons outlined the range of Congressional concerns on Iran, including recent hearings and pending legislation. He pressed hard for Total to issue a more nuanced public statement on its interest in moving ahead on Iran-related investment which, like the recent Shell statement, gave due credit for geopolitical factors. Finally, Simons noted that the new UN Security Council resolution addressing Iran's nuclear program would likely include language recommending that UN members exert restraint on extending export credits to Iran, and the French Government had already announced plans to cut its export credit lines for the coming year. In that atmosphere, any forward movement on energy sector investment plans would be extremely poorly timed.

15. (C) Darricarrere responded that Total had made no final investment decision regarding investment in Iran's South Pars Liquid Natural Gas (LNG) project. He noted that certain financial elements of the project were "not progressing very quickly" and did not believe Total would make a final investment decision "within the next few weeks." Total said that it wanted more time before making a final investment decision and that, somewhat surprisingly, the Iranians were not pushing Total into deciding quickly. He stated that the rates of return being offered were still not sufficient to satisfy the Total board. Darricarrere noted that Total understood the "entire political issue" and would take foreign policy factors into consideration, but argued that sanctions, if not well adapted, would impact the international oil price. Nonetheless, Total would abide by any

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UN Security Council resolutions, as well as any GOF or EU regulations regarding trade with Iran. Darricarrere hinted that Total will also wait to see the policies of the new French government before making a decision. Simons pressed again for a more nuanced public statement from Total, including a deferral of the final investment decision beyond "weeks" into calendar year 2008.

16. (C) Turning to the broader question of Iranian reliability as a long term gas supplier, Simons asked Delacarrere for his views on whether the Iranians had firmly made up their minds to enter the global LNG industry when there appeared to be an unresolved domestic debate over whether that gas would continue to be needed to supply the burgeoning domestic market. The Iranians did not meet their relatively modest gas export commitments to Turkey, for example, when temperatures dropped in the winter and the gas was needed for domestic heating; would the preference to supply domestic markets impact Iran's reliability as an LNG supplier? Iranian LNG investments could combine high levels of economic risk in addition to the well-known political risks. Judging by the paucity of deals signed in the past three years, the GOI has not been willing to compensate investors for these increased risks. Simons suggested that these factors contributed in part to the decision of the Japanese oil firm Inpex to pull out of the Azadegan Project. Darricarrere agreed that Iran had not been prepared to provide such compensation for investors, and acknowledged that Total was not/not interested in pursuing the Azadegan project. However, he disagreed on Iran's attitude toward LNG, asserting that the oil ministry was determined to put Iran on the map as a global supplier.

17. (C) Simons noted that other firms potentially interested in Iran are also pulling back. At their recent annual conference, Cambridge Energy Research Associates staff supported the USG assessment that banks and businesses are reducing their exposure to Iran, complicating the financing of energy sector investments. Simons questioned whether Chinese firms were likely to develop an LNG project in Iran by themselves. With the recent rise in natural gas prices, Daricarrere agreed that

Chinese interest in LNG has decreased. Simons also noted that the U.S. had approached Shell, Repsol, and their respective governments after press reports had circulated of a new Memorandum of Understanding on developing Iran's South Pars gas field. These firms publicly stated that these investments are not final and that no final investment decision would be made until 2008.

18. (C) Darricarrere asserted that Total would factor all these points into its Iran investment decision.

19. (U) DAS Simons has cleared this cable.

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